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Message Text

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ACTION NEA-06

INFO OCT-01 SS-14 ADP-00 NSC-10 NSCE-00 L-02 EB-03 AID-10

OMB-01 TRSE-00 CIAE-00 INR-10 NSAE-00 RSC-01 PRS-01

ABF-01 IGA-01 SSO-00 INRE-00 RSR-01 /062 W
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FM AMEMBASSY NEW DELHI
TO SECSTATE WASHDC IMMEDIATE 5726

C O N F I D E N T I A L NEW DELHI 8520

LIMDIS

E.O. 11652: GDS
TAGS: EFIN, PFOR, IN
SUBJECT: RUPEE NEGOTIATIONS

BEGIN SUMMARY: I OPENED RUPEE NEGOTIATIONS WITH FINANCE MINISTER CHAVAN THIS MORNING. THE ATMOSPHERE WAS CORDIAL AND ALTOGETHER CONSTRUCTIVE. THE MINISTER EXPRESSED GENERAL AGREEMENT WITH OUR PROPOSAL, ALTHOUGH HE HOPED THAT A TEN YEAR TIME LIMIT MIGHT BE SET ON THE PERIOD OF U.S. USES.
END SUMMARY.

1. I BEGAN FORMAL RUPEE NEGOTIATIONS WITH FINANCE MINISTER CHAVAN THIS MORNING. M.G. KAUL WHO WILL HEAD THE INDIAN SIDE IN THE DAY TO DAY DISCUSSIONS WAS ALSO PRESENT. THE MINISTER INDICATED GENERAL AGREEMENT IN PRINCIPAL WITH THE U.S. PROPOSAL AS SET OUT IN THE AIDE-MEMOIRE I DELIVERED TO THE PRIME MINISTER ON JULY 17. HE FELT, HOWEVER, THAT THE U.S. PROPOSAL IMPLIED A U.S. USE OF RUPEES FOR THE NEXT 25 OR 30 YEARS. INDIA, HE SAID, WAS THINKING IN TERMS OF 10 YEARS. I REPLIED THAT THE U.S. HAD NO EXPECTATION OF USING THESE RUPEES FOR ALL OF 25 OR 30 YEARS AND THAT IF THEY WERE PROPOSING A TEN-YEAR PERIOD WE CERTAINLY HAD A BASIS FOR DISCUSSION. (AS YOU KNOW, RUNNING DOWN A BILLION DOLLARS AT DOLS 50 MILLION A YEAR, GIVEN LONG TERM RATE OF
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INFLATION OF SIX PERCENT WOULD GIVE US FOURTEEN YEARS.)

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2. WITH REGARD TO SPECIFICS:

A. GOPI KAUL SAID THAT INDIA WOULD HAVE GREAT DIFFICULTY ACCEPTING THE MAINTENANCE-OF-VALUE PROVISION IN MY AIDE-MEMOIRE. I RESPONDED THAT MY INSTRUCTIONS ON THIS MATTER WERE NOT FLEXIBLE AS ON CERTAIN OTHER MATTERS. I INDICATED, HOWEVER, A WILLINGNESS TO SEEK A MUTUALLY AGREEABLE RE-SOLUTION ON THIS PROBLEM.

B. THE INDIANS SAID THAT INCLUSION OF THE DOLS 8 MILLION TRANCHE FOR NEPAL WOULD POSE NO PARTICULAR PROBLEM SO LONG AS EVERYTHING ELSE WAS WORKED OUT.

C. THE INDIANS INDICATED THAT INCREASING THE AMOUNT OF CONVERSIONS FROM 2 TO 5 PERCENT WOULD GIVE THE GOI A LOT OF PROBLEMS. I SUGGESTED IN TURN THAT PERHAPS WE COULD COME OUT WITH SOMETHING BETWEEN 2 AND 5 PERCENT.

D. THE INDIANS ARE RATHER
ATRACTED TO THE DOLS 100
MILLION EXPORT SCHEME, PARTICULARLY IF WE CAN INCURE "ADDI-TIONALITY."

3. I WOULD MUCH APPRECIATE IT IF THE DEPARTMENT COULD THINK A BIT ABOUT THE MAINTENANCE-OF-VALUE PROVISION. IS IT REALLY ESSENTIAL? WE ARE TALKING ABOUT RUPEES THAT WILL BE SPENT ONLY IN INDIA.

4. I WOULD ALSO APPRECIATE IT IF WE COULD HAVE A MORE COMPLETE FLESHING OUT OF THE PROPOSAL THAT THE U.S. BUY DOLS 100 MILLION IN INDIAN EXPORTS OVER THE NEXT FIVE YEARS. WHICH AGENCIES WOULD BUY THESE GOODS, AND WHAT KIND OF GOODS WOULD THEY BE? THAT TYPE OF THING. I REPEAT, THEY ARE ATTRACTED TO THE IDEA.

5. AT THE END OF THE MEETING, WHICH WAS AS PLEASANT AND AMICABLE AS COULD BE, WE AGREED TO MEET AGAIN ON THURSDAY, JULY 26. AT THAT TIME THE U.S. TEAM WILL BE HEADED BY OUR AID DIRECTOR, HOWARD HOUSTON, AND THE INDIAN TEAM BY
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SECRETARY KAUL.
MOYNIHAN

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 23 JUL 1973
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973NEWDE08520
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS MOYNIHAN
Errors: N/A
Film Number: n/a
From: NEW DELHI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730716/aaaaalvl.tel
Line Count: 109
Locator: TEXT ON-LINE
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 19 DEC 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <19-Dec-2001 by kelleyw0>; APPROVED <10-Jan-2002 by morefirh>
Review Markings:

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Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: RUPEE NEGOTIATIONS BEGIN SUMMARY: I OPENED RUPEE NEGOTIATIONS WITH FINANCE
TAGS: EFIN, PFOR, IN
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

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